

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Roscommon County Road Commission	County Roscommon
Fiscal Year End 12/31/2006	Opinion Date 3/28/07	Date Audit Report Submitted to State 6/14/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number (989) 563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Sign: 	<small>Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, c=US, o=James M. Anderson, P.C., email=jma@m33access.com Date: 2007.06.14 22:48:54 -04'00'</small>	Printed Name James M. Anderson, CPA		License Number 1101017419

**ROSCOMMON COUNTY ROAD COMMISSION  
FINANCIAL REPORT  
DECEMBER 31, 2006**

**ROSCOMMON COUNTY**  
**BOARD OF COUNTY ROAD COMMISSIONERS**

Larry V. Paxton  
Commissioner

Michael D. VanWormer  
Commissioner

George E. Pappas  
Commissioner

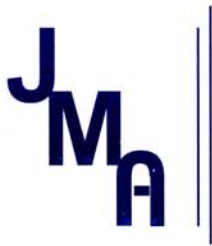
Timothy O'Rourke  
Manager

Gloria J. Burns  
Assistant Manager/CFO

# ROSCOMMON COUNTY ROAD COMMISSION

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## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

### INDEPENDENT AUDITOR'S REPORT

March 28, 2007

Board of County Road Commissioners  
Roscommon County Road Commission  
Prudenville, MI 48651

I have audited the accompanying financial statements of the governmental activities and major fund of the Roscommon County Road Commission, a component unit of the County of Roscommon, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

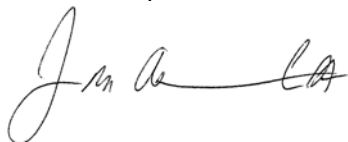
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Roscommon County Road Commission as of December 31, 2006, and the respective changes in financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MEMBER MACPA and AICPA

In accordance with Government Auditing Standards, I have also a report dated March 28, 2007, on my consideration of the Roscommon County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis on pages 3 to 8 are not a required part of the basic financial statements, but are supplementary information required by generally accepted accounting principles in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Roscommon County Road Commission's basic financial statements. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Roscommon County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson", followed by a stylized "P.C." or similar initials.

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006

Our discussion and analysis of Roscommon County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the road Commission:

The first statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

**REPORTING THE ROAD COMMISSION AS A WHOLE**

**Government-Wide Statements**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2006

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

#### Fund Financial Statements

The road commission currently has only one fund, the general operations fund. All of the road commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the road commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

#### **FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE**

The road commission's net assets increased 6.62% from \$19,990,586 to \$21,314,291 as of December 31, 2006. The net assets are summarized below.

#### Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.



ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2006

The investment in capital assets, net of related debt, was \$17,931,834 at December 31, 2005 and \$18,968,412 as of December 31, 2006. The increase in net assets is primarily the result of capitalizing infrastructure of \$2,334,124 and equipment purchases. The restricted net assets increased by \$287,127 during the current year.

Net assets as of year ended December 31, 2006 and December 31, 2005:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ Decrease</u>
Current and Other Assets	\$ 3,745,417	\$ 3,311,743	\$ 433,674
Capital Assets (Net)	<u>22,588,412</u>	<u>21,651,834</u>	<u>936,578</u>
Total Assets	<u>26,333,829</u>	<u>24,963,577</u>	<u>1,370,252</u>
Long-Term Debt Outstanding	3,755,123	3,898,173	(143,050)
Other Liabilities	<u>1,264,415</u>	<u>1,074,818</u>	<u>189,597</u>
Total Liabilities	<u>5,019,538</u>	<u>4,972,991</u>	<u>46,547</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	18,968,412	17,931,834	1,036,578
Restricted	<u>2,345,879</u>	<u>2,058,752</u>	<u>287,127</u>
Total Net Assets	<u>\$21,314,291</u>	<u>\$19,990,586</u>	<u>\$ 1,323,705</u>

Changes in Net Assets

A summary of changes in net assets follows:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ Decrease</u>
Revenues			
Federal Grants	\$ 93,593	\$ 379,018	\$ (285,425)
State Grants	4,605,562	4,798,542	(192,980)
Contributions from Local Units	932,735	566,320	366,415
Charges for Services	1,433,263	1,601,425	(168,162)
Interest and Rents	98,784	46,182	52,602
Gain on Asset Disposal	<u>17,119</u>	<u>53,715</u>	<u>(36,596)</u>
Total Program Revenue	<u>7,181,056</u>	<u>7,445,202</u>	<u>(264,146)</u>
Expenditures			
Public Works	5,685,866	5,784,890	(99,024)
Interest Expense	<u>171,485</u>	<u>175,385</u>	<u>(3,900)</u>
Total Expenditures	<u>5,857,351</u>	<u>5,960,275</u>	<u>(102,924)</u>
Increase (Decrease) in Net Assets	<u>\$ 1,323,705</u>	<u>\$ 1,484,927</u>	<u>\$ (161,222)</u>

ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2006

The Road commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ Decrease</u>
Revenues			
Federal Grants	\$ 93,593	\$ 379,018	\$ (285,425)
State Grants	4,706,777	4,798,542	(91,765)
Contributions from Local Units	831,520	566,320	265,200
Charges for Services	1,309,299	1,586,944	(277,645)
Interest and Rents	98,784	46,182	52,602
Other Revenue	23,310	18,896	4,414
Gain on Asset Disposal	16,558	53,715	(37,157)
Total Program Revenue	<u>7,079,841</u>	<u>7,449,617</u>	<u>(369,776)</u>
Expenditures			
Public Works	6,778,799	6,747,348	31,451
Net Capital Outlay	(219,520)	320,608	(540,128)
Debt Service	271,485	270,385	1,100
Total Expenditures	<u>6,830,764</u>	<u>7,338,341</u>	<u>(507,577)</u>
Excess of Revenues Over (Under) Expenditures	249,077	111,276	137,801
Fund Balance - January 1	<u>2,336,925</u>	<u>2,225,649</u>	<u>111,276</u>
Fund Balance - December 31	<u>\$ 2,586,002</u>	<u>\$ 2,336,925</u>	<u>\$ 249,077</u>

**BUDGETARY HIGHLIGHTS**

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$943,365 higher than the original budget primarily due to increases in the State Trunkline Maintenance and the additional township contributions towards road projects.

The final amended expenditure budget for 2006 was \$923,365 higher than the original budget primarily due to an increase in state trunk line maintenance and local heavy maintenance. The actual expenditures incurred during 2006 were under the final amended budget by \$132,936. There were four unfavorable variance in expenditure line items.

ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2006

Capital Assets

As of the respective year ends, the road commission had invested the following in net capital assets:

	<u>12/31/06</u>	<u>12/31/05</u>	<u>Increase/ Decrease</u>
Capital assets not being depreciated:			
Land and improvements	\$ 2,477,584	\$ 2,376,369	\$ 101,215
Subtotal	<u>2,477,584</u>	<u>2,376,369</u>	<u>101,215</u>
Capital assets being depreciated:			
Buildings	6,720,077	6,721,217	(1,140)
Equipment - Road	6,041,312	5,597,389	443,923
Equipment - Shop	226,563	236,969	(10,406)
Equipment - Office	150,344	144,787	5,557
Equipment - Engineering	72,359	71,463	896
Equipment - Yard & Storage	335,602	342,733	(7,131)
Infrastructure - Bridges	1,035,114	1,035,114	-0-
Infrastructure - Roads	<u>22,656,593</u>	<u>21,146,053</u>	<u>1,510,540</u>
Subtotal	<u>37,237,964</u>	<u>35,295,725</u>	<u>1,942,239</u>
Total Capital Assets	<u>39,715,548</u>	<u>37,672,094</u>	<u>2,043,454</u>
Total Accumulated Depreciation	<u>17,127,136</u>	<u>16,020,260</u>	<u>1,106,876</u>
Total Net Capital Assets	<u>\$22,588,412</u>	<u>\$21,651,834</u>	<u>\$ 936,578</u>
Debt related to capital assets - bonds and installment note		<u>\$ 3,620,000</u>	

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$2,966,361. The infrastructure recorded, during 2006 will be depreciated in the following years. The infrastructure is financed through Federal, State and local contributions.

Debt

At the year end, the road commission had \$3,620,000 in bonds outstanding. This represents a decrease of \$100,000 from 2005. The bonds are payable over a year period with a final payment due August 1, 2027. Other long-term debt is accrued vacation and sick pay leave.

ROSCOMMON COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2006

**Economic Factors and Next Year's Budget**

**The Road Commission as a Whole**

The Roscommon County Road Commission (RCRC) is proud to report that it has been able to construct and maintain roads as planned while remaining financially sound. The RCRC fund balance increased by \$249,077 during 2006.

**Primary Roads**

Road projects on the Primary Road System were completed using a combination of federal, state, and local monies. County Road 104 at Higgins Lake and County Road 300 on the north shore of Houghton Lake were improved. We have requested the Michigan Department of Transportation change the status of E. Higgins Lake Drive, Gerrish Township, from a Local Road to a Primary Road.

**Local Roads**

A variety of roads were improved on the Local Road System using township funds with assistance from RCRC. The Townships provided approximately \$769,000 (82%) toward the completion of projects totaling \$938,000. Improvements included preservation treatments, sinkhole removal, building gravel grades and resurfacing blacktop roads. We also partnered with the Village of Roscommon for the resurfacing of Main Street.

**MI Dept. of Transportation (MDOT)**

The road commission has a \$1.2 million Contract with the MDOT to provide maintenance on State Highways. MDOT sometimes requests that we perform non-maintenance work, including catch basin and curb repairs. This arrangement works well for both parties and the public. MDOT gets the work done, the public enjoys roads safe and convenient to travel, and we are able to offer full-time employment to several individuals year round.

**Capital Assets**

The Road Commission has been able to keep its fleet up-to-date and in good working condition. A total of \$531,000 was spent on the purchase of new or used equipment, engineering supplies, and office equipment.

**2007 Forecast**

The RCRC expects up to a 4% reduction in its MI Transportation Fund receipts due to higher gas prices and fewer gallons purchased by consumers. Higher fuel and utility costs and rising health care premiums continue to challenge our budget, however with careful planning we can look forward to maintaining Roscommon County roads to the level motorists have enjoyed in the past.

The Road Commission is also investigating a refinancing of the bonds outstanding. This will be done providing that interest rates are low enough to create a significant savings to the Road Commission.

**Closing**

This financial report is intended to provide our citizens, taxpayers and the general public with a general overview of the road commission's finances and how they are being spent.

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2006

**ASSETS**

Cash	\$ 1,126,510
Investments	640,767
Accounts receivable	
Sundry	621
Due from other governmental units	1,284,201
Inventories	533,879
Long-term contracts receivable	159,439
Capital Assets (Net of Accumulated Depreciation)	<u>22,588,412</u>
Total Assets	<u>26,333,829</u>

**LIABILITIES**

Current Liabilities	
Accounts payable	206,374
Accrued liabilities	17,788
Due to other governmental units	2,611
Escrow	34,809
Deferred revenue	467,335
Advances from MDOT	430,498
Bonds Payable	105,000
Non Current Liabilities	
Bonds Payable	3,515,000
Vested Employee Benefits Payable	<u>240,123</u>
Total Liabilities	<u>5,019,538</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	18,968,412
Restricted for County Roads	<u>2,345,879</u>
Total Net Assets	<u>\$ 21,314,291</u>

The accompanying notes are an integral part of these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

Program Expenses	
Primary Road Maintenance	\$ 1,080,456
Local Road Maintenance	1,365,817
State Trunkline Maintenance	1,381,801
Net Equipment Expense	366,927
Net Administrative Expense	267,242
Infrastructure Depreciation	1,261,673
Compensated Absences	(38,050)
Interest Expense	<u>171,485</u>
Total Program Expenses	<u>5,857,351</u>
Program Revenue	
Federal Grants	93,593
State Grants	4,605,562
Contributions from Local Units	932,735
Charges for Services	1,433,263
Investment Earnings	<u>98,784</u>
Total Program Revenue	<u>7,163,937</u>
Net Program Revenue	<u>1,306,586</u>
General Revenue	
Gain (Loss) on Asset Disposal	<u>17,119</u>
Total General Revenues	<u>17,119</u>
Change in Net Assets	1,323,705
Net Assets	
Beginning of Year	<u>19,990,586</u>
End of Year	<u><u>\$ 21,314,291</u></u>

The accompanying notes are an integral part of these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
BALANCE SHEET  
DECEMBER 31, 2006

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Imprest cash	\$ 350
Cash demand and time deposits	1,126,160
Investments	640,767
Accounts receivable:	
Sundry	621
Due from other governmental units	1,284,201
Inventories	533,879
Long-term contract receivable	<u>159,439</u>
Total Assets	<u>\$ 3,745,417</u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 206,374
Accrued liabilities	17,788
Due to other governmental units	2,611
Escrow	34,809
Deferred revenue	467,335
Advances from governmental units	<u>430,498</u>
Total Liabilities	<u>1,159,415</u>
Fund Equity:	
Fund Balance:	
Reserve for Post-Retirement Benefits	300,000
Undesignated	<u>2,286,002</u>
Total Fund Equity	<u>2,586,002</u>
Total Liabilities and Fund Equity	<u>\$ 3,745,417</u>

The accompanying notes are an integral part of these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Total governmental fund balance	\$ 2,586,002
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Amounts reported for governmental activities in  
the statement of new assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,488,412
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(3,860,123)</u>
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Net assets of governmental activities	<u>\$ 21,214,291</u>
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The accompanying notes are an integral part of these financial statements.



ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
DECEMBER 31, 2006

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 93,593
State Grants	4,706,777
Contributions From Local Units	831,520
Charges for Services	1,309,299
Interest and Rents	98,784
Other Revenue	<u>39,868</u>
Total Revenues	<u>7,079,841</u>
Expenditures	
Public Works	6,778,799
Net Capital Outlay	(219,520)
Debt Service	<u>271,485</u>
Total Expenditures	<u>6,830,764</u>
Excess of Revenues Over (Under) Expenditures	249,077
Fund Balance-January 1, 2006	<u>2,336,925</u>
Fund Balance-December 31, 2006	<u>\$ 2,586,002</u>

The accompanying notes are an integral part of the these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

Net Change in fund balance - total governmental funds \$ 249,077

Amounts reported for governmental activities  
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 936,578

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. 100,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense). 38,050

Change in net assets of governmental activities. \$ 1,323,705

The accompanying notes are an integral part of these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
PENSION TRUST FUND  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

ASSETS

Cash and Investments	\$ 3,594,543
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Total Assets	<u>\$ 3,594,543</u>
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FUND EQUITY

Reserve for Retirement Benefits	\$ 3,594,543
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Total Fund Equity	<u>\$ 3,594,543</u>
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The accompanying notes are an integral part of these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
PENSION TRUST FUND  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

Additions:

Employer contributions	\$ 162,003
Investment income	<u>258,409</u>
Total Additions	<u>420,412</u>

Deductions:

Administrative	9,317
Cash retirements	<u>406,597</u>
Total Deductions	<u>415,914</u>

Change in Net Assets: 4,498

Net Assets - October 1, 2005 3,590,045

Net Assets - September 30, 2006 \$ 3,594,543

The accompanying notes are an integral part of these financial statements.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Roscommon County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Roscommon County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Roscommon, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunkline and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eleven (11) Townships in Roscommon County and maintains 859 miles of state, local and primary roads.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Roscommon County Road Commission, a discretely presented component unit of Roscommon County, and include the Road Commission Operating Fund, Pension Trust Fund, General Fixed Asset Account Group, and General Long-Term Debt Account Group.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Roscommon County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS - Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – FUND FINANCIAL STATEMENTS - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less within acquired. Investments are stated at fair value.

INVENTORY - Inventories consisting of equipment parts and supplies of \$265,507 and road materials of \$268,372, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Roscommon County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Roscommon County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

ADVANCES FROM THE STATE OF MICHIGAN - The State of Michigan advances funds on a State maintenance agreement it has with the Roscommon County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

Employees are compensated 100% of their vested vacation leave and 50% to 100% (depending in employees classification) of their vested sick leave upon termination for any reason.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE B - CASH AND INVESTMENTS

Michigan compiled Laws 129.91, authorizes the Road Commission to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Imprest Cash	\$ 350
Cash demand and time deposits	1,126,160
Investments	<u>640,767</u>
Total	<u>\$1,767,277</u>

Deposits

At year-end the carrying amount of the County Road Commissions deposits were \$1,126,160 and the bank balance was \$1,183,361. According to the Federal Deposit Insurance Corporation, approximately 33% of the total bank balance was covered by federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to municipal money markets.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of December 31, 2006, the Road Commission had the following investments:

	<u>Reported Amount (Fair Value)</u>
Investments	
Lasalle Bank Public Funds Investment Trust	\$ 293,795
Bank One Municipal Investments	169,435
Fifth Third Securities Inc.	<u>177,537</u>
Total	<u>\$ 640,767</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual fund does not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amounts that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/06</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 2,376,369	\$ 101,215	\$ -0-	\$ 2,477,584
Subtotal	<u>2,376,369</u>	<u>101,215</u>	<u>-0-</u>	<u>2,477,584</u>
Capital Assets Being Depreciated:				
Buildings	6,721,217	-0-	1,140	6,720,077
Road Equipment	5,597,389	523,001	79,078	6,041,312
Shop Equipment	236,969	-0-	10,406	226,563
Office Equipment	144,787	7,125	1,568	150,344
Engineers Equipment	71,463	896	-0-	72,359
Yard & Storage Equipment	342,733	-0-	7,131	335,602
Infrastructure-Bridges	1,035,114	-0-	-0-	1,035,114
Infrastructure-Roads	<u>21,146,053</u>	<u>2,334,124</u>	<u>823,584</u>	<u>22,656,593</u>
Total	<u>35,295,725</u>	<u>2,865,146</u>	<u>922,907</u>	<u>37,237,964</u>
Less Accumulated Depreciation:				
Buildings	1,121,918	176,443	1,000	1,297,361
Road Equipment	4,284,984	537,715	78,978	4,743,721
Shop Equipment	114,398	20,394	9,457	125,335
Office Equipment	97,773	17,200	1,415	113,558
Engineers Equipment	52,695	6,573	-0-	59,268
Yard & Storage Equipment	172,094	8,443	7,131	173,406
Infrastructure-Bridges	769,341	9,999	-0-	779,340
Infrastructure-Roads	<u>9,407,057</u>	<u>1,251,674</u>	<u>823,584</u>	<u>9,835,147</u>
Total	<u>16,020,260</u>	<u>2,028,441</u>	<u>921,565</u>	<u>17,127,136</u>
Net Capital Assets Being Depreciated	<u>19,275,465</u>	<u>836,705</u>	<u>1,342</u>	<u>20,110,828</u>
Total Net Capital Assets	<u>\$21,651,834</u>	<u>\$ 937,920</u>	<u>\$ 1,342</u>	<u>\$22,588,412</u>

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE D - PENSION PLAN

The Roscommon County Road Commission Money Purchase Plan is a single employer plan established by the Roscommon Board of County Road Commission in 1985 to provide retirement and pension benefits. The trustees of the plan are the Board of County Road Commissioners. An administrative service agreement has been entered into with the Principal Financial Group to provide a number of the administrative functions.

The Plan covers substantially all full-time employees of the Road Commission, and had a membership of 55 participants at September 30, 2006. Act No. 103 of the Public Act of 1960, as amended, governs the benefits and conditions of the Pension Plan. The Road Commission contributes 9 percent of all employees base compensation to the plan monthly. All benefits vest immediately and are credited to each participants account. For the year ended September 30, 2006. the Road Commission's payroll subject to retirement contribution amounted to approximately \$1,756,799 with employer contributions of \$159,157.

The information required by the Governmental Accounting Standards concerning "accounting policies and plan assets matters" is not provided in the annual actuarial valuation report issued by the Principal Financial Group, which handles and invest all of the pension assets.

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

<u>Description</u>	<u>Balance</u> <u>1/1/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>
General Obligation Bonds Payable	\$ 3,720,000	\$ -0-	\$ 100,000	\$ 3,620,000
Compensated Absences	<u>278,173 (1)</u>	<u>-0-</u>	<u>38,050</u>	<u>240,123</u>
Totals	<u>\$ 3,998,173</u>	<u>\$ -0-</u>	<u>\$ 138,050</u>	<u>\$ 3,860,123</u>

(1) The change in compensated absences is shown as a net addition.

The general obligation bonds payable is made up of Michigan Transportation Fund Bonds issued May 23, 2004 pursuant to the provisions of Act 51, for the purpose of defraying part of the cost of acquiring, constructing, furnishing and equipping a new County Road Commission central garage complex and satellite facility. The bonds were issued in denominations of \$5,000 with a net rate of 4.895%. The bonds will mature in varying increments over a 25 year period.

Annual Debt Service Requirements:

<u>Year</u>	<u>Amount</u>
2007	\$ 272,385
2008	273,085
2009	273,585
2010	268,985
2011	274,060
2012	273,705
2013	273,073
2014	272,090
2015	270,748
2016-2027	<u>3,321,562</u>
Total Payments	5,773,278
Less Interest & Fees	<u>(2,153,278)</u>
Net Balance Due	<u>\$ 3,620,000</u>

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements amounts to approximately \$100,717 for sick and \$139,406 for vacation at December 31, 2006.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE G - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2006 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road: Maintenance	\$ 1,260,280	\$ 1,354,506	\$ (94,226)
Local Road: Heavy Maintenance	\$ 916,700	\$ 938,618	\$ (21,918)
State Trunkline Maintenance	\$ 1,350,000	\$ 1,364,233	\$ (14,233)
Equipment Expense - Net	\$ 305,000	\$ 366,927	\$ (61,927)

The Road Commission does not use encumbrances for budgetary purposes. During the year ended December 31, 2006, the Road Commissioners made one amendment to the General Operating Fund Budget.

NOTE H - RISK MANAGEMENT

Roscommon County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Roscommon Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During 2006 and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

ROSCOMMON COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2006

NOTE I - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal revenue of \$93,593 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE J - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D, the Road Commission provides post retirement health care benefits to all employees who retire from the Road Commission on or after obtaining age 55 with 30 or more years of service or age 62 with 20 years of service. The Road Commission also provides employer paid supplemental health insurance for qualifying employees between the age of 65 and 80. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For the twelve months ended December 31, 2006, these costs totaled \$83,669.

NOTE K - LONG-TERM CONTRACT RECEIVABLE

On August 5, 2005, the Roscommon County Board of Road Commissioners entered into an agreement with the Artesia Youth Park (a Michigan Non-profit Corporation) for the sale of the former Houghton Lake Road Commission garage and property. The sale price was \$170,000 with \$10,000 down on the day of the sale with the Road Commission receiving a mortgage for the remaining \$160,000. The terms of the mortgage include payments of \$8,000 on or before October 1<sup>st</sup>, 2006 and October 1<sup>st</sup>, 2007 with remaining balance due on or before October 1<sup>st</sup>, 2008. Interest is to accrue at a rate of 4%. The mortgage receivable is reflected on the Statement of Net Assets as a Long-Term contract receivable offset by a deferred revenue account.

## **REQUIRED SUPPLEMENTAL INFORMATION**



ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -  
BUDGETARY COMPARISON SCHEDULE  
TWELVE MONTHS ENDED DECEMBER 31, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Michigan Transportation Funds:				
Primary road	\$ 2,149,000	\$ 2,200,000	\$ 2,250,337	\$ 50,337
Local road	1,568,000	1,540,000	1,581,452	41,452
Snow removal	-0-	-0-	7,625	7,625
Engineering	<u>-0-</u>	<u>-0-</u>	<u>10,000</u>	<u>10,000</u>
Subtotal	<u>3,717,000</u>	<u>3,740,000</u>	<u>3,849,414</u>	<u>109,414</u>
Federal Aid:				
Category-D	63,000	97,800	93,593	(4,207)
State Aid:				
State forest road funds	80,000	-0-	-0-	-0-
Rural primary funds	388,000	500,900	482,363	(18,537)
Urban area funds	375,000	375,000	375,000	-0-
State Trunkline Maintenance / Non-Maintenance	1,114,300	1,350,000	1,309,299	(40,701)
County Raised Funds:				
Township contributions and other contributions	250,000	780,000	831,520	51,520
Other Revenue:				
Land and building sale	-0-	-0-	561	561
Gain (Loss) on Sale of Equipment	-0-	-0-	16,558	16,558
Interest, Salvage Sales, Permits and Refunds	<u>53,035</u>	<u>140,000</u>	<u>121,533</u>	<u>(18,467)</u>
Total Revenue	<u>\$ 6,040,335</u>	<u>\$ 6,983,700</u>	<u>\$ 7,079,841</u>	<u>\$ 96,141</u>

ROSCOMMON COUNTY ROAD COMMISSION  
STATEMENT OF EXPENDITURES -  
BUDGETARY COMPARISON SCHEDULE  
TWELVE MONTHS DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 1,249,250	\$ 1,260,280	\$ 1,354,506	\$ (94,226)
Maintenance	1,100,000	1,117,800	1,080,456	37,344
Local Road:				
Heavy maintenance	435,200	916,700	938,618	(21,918)
Maintenance	<u>1,284,600</u>	<u>1,435,735</u>	<u>1,406,817</u>	<u>28,918</u>
Subtotal	<u>4,069,050</u>	<u>4,730,515</u>	<u>4,780,397</u>	<u>(49,882)</u>
State Trunkline Maintenance/ Non-Maintenance	<u>1,114,300</u>	<u>1,350,000</u>	<u>1,364,233</u>	<u>(14,233)</u>
Equipment Expense - Net:				
Direct			1,096,709	
Indirect			582,571	
Operating			254,133	
Less:				
Equipment Rental			<u>(1,566,486)</u>	
Subtotal	(1) <u>290,000</u>	(1) <u>305,000</u>	<u>366,927</u>	<u>(61,927)</u>
Administrative Expense - Net:				
Administrative expense			416,525	
Less:				
Overhead - State trunkline			(146,390)	
Purchase discounts and Handling Charges			<u>(2,893)</u>	
Subtotal	(1) <u>375,000</u>	(1) <u>385,000</u>	<u>267,242</u>	<u>117,758</u>
Capital Outlay - Net:				
Capital Outlay			530,882	
Less:				
Equipment retirements			(1,202)	
Depreciation			<u>(749,200)</u>	
Subtotal	(1) <u>(79,500)</u>	(1) <u>(78,300)</u>	<u>(219,520)</u>	<u>141,220</u>
Long-Term Debt Payments	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-0-</u>
Interest Expense	<u>171,485</u>	<u>171,485</u>	<u>171,485</u>	<u>-0-</u>
Total Expenditures	<u>\$ 6,040,335</u>	<u>\$ 6,963,700</u>	<u>\$ 6,830,764</u>	<u>\$ 132,936</u>

(1) Budgeted in total

## **SUPPLEMENTAL SCHEDULES**

ROSCOMMON COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES OF FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and Other Financing Sources	\$ 4,584,068	\$ 2,399,855	\$ 95,918	\$ 7,079,841
Total Expenditures	<u>4,132,101</u>	<u>2,638,809</u>	<u>59,854</u>	<u>6,830,764</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	451,967	(238,954)	36,064	249,077
Optional Transfers	<u>(335,000)</u>	<u>335,000</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	116,967	96,046	36,064	249,077
Fund Balance - January 1	<u>1,598,655</u>	<u>296,163</u>	<u>442,107</u>	<u>2,336,925</u>
Fund Balance - December 31	<u><u>\$ 1,715,622</u></u>	<u><u>\$ 392,209</u></u>	<u><u>\$ 478,171</u></u>	<u><u>\$ 2,586,002</u></u>

ROSCOMMON COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Motor Vehicle Highway Funds:				
Primary road	\$ 2,250,337	\$ -0-	\$ -0-	\$ 2,250,337
Local road	-0-	1,581,452	-0-	1,581,452
Snow removal	-0-	7,625	-0-	7,625
Engineering	<u>5,900</u>	<u>4,100</u>	<u>-0-</u>	<u>10,000</u>
Subtotal	<u>2,256,237</u>	<u>1,593,177</u>	<u>-0-</u>	<u>3,849,414</u>
Federal Aid:				
Category - D	93,593	-0-	-0-	93,593
State Aid:				
Rural Primary Funds	482,363	-0-	-0-	482,363
Urban Area Funds	375,000	-0-	-0-	375,000
State Trunkline Maintenance / Non-Maintenance	1,309,299	-0-	-0-	1,309,299
County Raised Funds:				
Township contributions and other contributions	-0-	794,159	37,361	831,520
Other Revenue:				
Land and building sale	-0-	-0-	561	561
Gain (Loss) on Sale of Equipment	-0-	-0-	16,558	16,558
Interest, Salvage Sales, Permits and Refunds	<u>67,576</u>	<u>12,519</u>	<u>41,438</u>	<u>121,533</u>
Total Revenue	<u>\$ 4,584,068</u>	<u>\$ 2,399,855</u>	<u>\$ 95,918</u>	<u>\$ 7,079,841</u>

ROSCOMMON COUNTY ROAD COMMISSION  
ANALYSIS OF EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 1,354,506	\$ -0-	\$ -0-	\$ 1,354,506
Maintenance	1,080,456	-0-	-0-	1,080,456
Local Road:				
Heavy maintenance	-0-	938,618	-0-	938,618
Maintenance	-0-	1,406,817	-0-	1,406,817
Subtotal	2,434,962	2,345,435	-0-	4,780,397
State Trunkline Maintenance / Non-Maintenance	1,364,233	-0-	-0-	1,364,233
Equipment Expense - Net:				
Direct	588,165	484,964	23,580	1,096,709
Indirect	312,433	257,613	12,525	582,571
Operating	136,292	112,377	5,464	254,133
Less:				
Equipment Rental	(840,107)	(692,699)	(33,680)	(1,566,486)
Subtotal	196,783	162,255	7,889	366,927
Administrative Expense - Net:				
Administrative expense	212,162	204,363	-0-	416,525
Less:				
Overhead - State trunkline	(74,566)	(71,824)	-0-	(146,390)
Purchase discounts and Handling charges	(1,473)	(1,420)	-0-	(2,893)
Subtotal	136,123	131,119	-0-	267,242
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	530,882	530,882
Less:				
Equipment Retirements	-0-	-0-	(1,202)	(1,202)
Depreciation	-0-	-0-	(749,200)	(749,200)
Subtotal	-0-	-0-	(219,520)	(219,520)
Long-Term Debt Payments	-0-	-0-	100,000	100,000
Interest Expense	-0-	-0-	171,485	171,485
Total Expenditures	\$ 4,132,101	\$ 2,638,809	\$ 59,854	\$ 6,830,764



## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 28, 2007

Board of County Road Commissioners  
Roscommon County Road Commission  
Roscommon, MI 48653

I have audited the financial statements of the governmental activities and major fund of the Roscommon County Road Commission, a Special Revenue Fund of Roscommon County, Michigan, as of and for the year ended December 31, 2006 which collectively comprise the Road Commission's basic financial statements, and have issued my report thereon dated March 28, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control over Financial Reporting

In planning and performing my audit, I considered the Roscommon County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Roscommon County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Roscommon County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Roscommon County Road Commission's internal control.

MEMBER MACPA and AICPA

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Roscommon County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT